

**\*\* PUBLIC VERSION \*\***

BEFORE THE  
PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

Application of Alltel Communications, Inc. )  
for Designation as an Eligible )  
Telecommunications Carrier Pursuant to )  
Section 214(e)(2) of the Communications )  
Act of 1934 )

Docket No. 2007-151-C

REPLY TESTIMONY OF  
GLENN H. BROWN  
ON BEHALF OF THE  
SOUTH CAROLINA TELEPHONE COALITION

July 2, 2007

**\*\* Indicates proprietary material that is redacted from public versions of this testimony \*\***

1    **INTRODUCTION**

2    **Q.    Please state your name and business address.**

3    A.    My name is Glenn H. Brown, and my business address is PO Box 21173, Sedona,  
4           Arizona 86341.

5    **Q.    Have you previously filed testimony in this proceeding?**

6    A.    Yes.  I filed Initial Testimony on behalf of the South Carolina Telephone  
7           Coalition (SCTC) on June 15, 2007.

8    **Q.    What is the purpose of your Reply Testimony?**

9    A.    The purpose of this testimony is to reply to the testimony and other data filed by  
10          Alltel regarding its application for ETC status in the state of South Carolina,  
11          including its proposed network improvement plan, and specifically to comment on  
12          whether through its record showings Alltel has met its burden of proving that  
13          approval of its application would be in the public interest.

14   **Q.    What are the factors that should influence the Commission's evaluation of**  
15       **whether Alltel's, or any other ETC applicant's application for ETC status**  
16       **and significant amounts of universal service funding is in the public interest?**

17   A.    As I discussed in my initial testimony in this proceeding, the heart of the public  
18          interest analysis is the determination of whether the public benefits resulting from  
19          the provision of public funds to the ETC applicant exceed the public costs of  
20          providing such funding.  An important part of the public interest analysis is the  
21          five-year network improvement plan, which under the FCC's guidelines must be  
22          submitted by the ETC applicant.  This plan is important because of the very  
23          different way in which ILECs and competitive ETCs receive high-cost universal

1 service support. Unlike the wireline incumbent, which receives universal service  
2 funding only *after* it has made investments in high-cost telecommunications  
3 infrastructure, a wireless CETC receives funding *before* any high-cost investments  
4 have been made. The purpose of universal service funding is to ensure that  
5 otherwise uneconomic investments are made so that rural consumers can enjoy  
6 services comparable to those available to urban consumers. The Commission has  
7 a right and a duty to find out exactly what the ETC applicant intends to do with  
8 the public funding that it seeks.<sup>1</sup>

9 **Q. Why is the five-year build-out plan such an important part of the public**  
10 **interest analysis?**

11 A. This plan is the only way that the Commission can measure the public benefits  
12 that will come from a particular ETC applicant's designation. In other words,  
13 how much "bang" will the public get for its universal service "buck." In  
14 evaluating the five year plan of this and other ETC applicants, the Commission  
15 should seek to understand and measure how much of the requested funding Alltel  
16 or any other ETC applicant commits to use to expand service coverage into  
17 previously unserved areas. While past FCC precedent at times has allowed a  
18 competitive ETC to use high-cost funding to reinforce and upgrade its network in  
19 the lower-cost areas where it already serves, most of the public interest benefits  
20 result when the applicant uses such funding to expand wireless signal availability  
21 into previously unserved rural areas. Also, the public will not benefit if the

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<sup>1</sup> Indeed, in what other area of government can a private entity seek tens of millions of dollars of public funding without making a solid demonstration of what it intends to do

1 applicant merely uses universal service funding to make investments that it would  
2 have made anyway in the normal course of business. Universal service funds only  
3 create public benefit to the extent that they result in investments that are  
4 incremental to what the applicant normally would have made, and in facilities in  
5 high-cost, low-volume areas that would not have been made absent universal  
6 service funding. The recent Joint Board Recommended Decision<sup>2</sup> clearly  
7 indicates that prior practices in the granting of wireless CETC funding have  
8 resulted in explosive growth in the fund that threatens to make the critically  
9 important universal service mechanisms of this country unsustainable. This  
10 Commission correctly foresaw this coming problem in its 2005 ETC decision,<sup>3</sup>  
11 and insisted on a high standard of proof when the expenditure of scarce public  
12 funds is involved. Only through a careful, fact-based analysis of the five-year  
13 plan can the Commission determine whether the applicant's planned use of the  
14 funding that it seeks will provide incremental public benefits commensurate with  
15 its public costs.

16 **Q. Is it relevant that other applicants have applied for ETC status in the same**  
17 **areas as Alltel has?**

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with the funds, and how the public will benefit from such expenditures?

<sup>2</sup> Recommended Decision *In the Matter of High-Cost Universal Service Support and Federal-State Joint Board on Universal Service*, WC Docket No. 05-337 and CC Docket No. 96-45, FCC 07J-1, released May 1, 2007 (Joint Board Recommended Decision).

<sup>3</sup> Order No. 2005-5, dated January 7, 2005 in Docket No. 2003-158-C, *In re: Application of FTC Communications DBA FTC Wireless for Designation as an Eligible Telecommunications Carrier Pursuant to Section 214(e)(2) of the Communications Act of 1934*.

1 A. Yes it is. In my Initial Testimony (at page 12) I mentioned how FCC Chairman  
2 Kevin Martin had noted his concerns with funding multiple wireless ETCs in  
3 areas that are prohibitively expensive for even one carrier to serve. In Docket  
4 Nos. 2003-227-C and 2007-193-C, both of which are currently pending before this  
5 Commission, Hargray Wireless and FTC Wireless, respectively, have applied for  
6 ETC status in ETC study areas that are totally included within areas where Alltel  
7 has requested ETC designation. Another important role that the five-year plan can  
8 play is to allow the Commission to compare the proposals of the competing  
9 applicants to see which plan provides the public with the best value for its hard-  
10 earned dollars in terms of expanding coverage into currently unserved areas.

11 **Q. Could you please summarize the conclusions that you have reached in your**  
12 **review of Alltel's application, testimony and five-year build-out plan?**

13 A. As described more fully in the remainder of my testimony, I have reached the  
14 following conclusions:

- 15 1. Alltel's five year plan is seriously lacking in much of the detailed information  
16 that will be necessary for the Commission to perform its public interest  
17 analysis.
- 18 2. Of the \$20 million of annual high cost support that Alltel will receive \*\* [REDACTED]  
19 [REDACTED] \*\*will go into new tower facilities that potentially  
20 could expand service area, and \*\* [REDACTED] \*\* in  
21 lower-cost areas of the state where Alltel already serves.

1           3. On the surface, and based on the limited information available, it would  
2           appear that Alltel's designation will create substantial public costs and yield  
3           proportionately few incremental public benefits.

4           4. Based upon information available to date, the Commission should find that  
5           approving Alltel's application is not in the public interest, and therefore its  
6           application should not be approved.

7           I also will summarize several principles that I believe will be important as the  
8           Commission seeks to develop specific rules for the evaluation of ETC applications.

9           **THE FIVE-YEAR PLAN**

10          **Q. In its May 30, 2007 Directive, the Commission stated that "we should be**  
11           **informed by – but not controlled by – [the] FCC guidelines." What are the**  
12           **specific guidelines that the FCC has provided for the submission of a five-**  
13           **year plan?**

14          **A. The FCC guidelines for review of the five year plan are found in Part 54.202 of**  
15           the FCC rules and state that the ETC applicant must:

16           Submit a five-year plan that describes **with specificity** proposed  
17           improvements or upgrades to the applicant's network on a wire center-  
18           by-wire center basis throughout its proposed designated service area.  
19           Each applicant shall demonstrate: (emphasis added)

- 20           ○ How signal quality, coverage or capacity will improve due  
21           to the receipt of high-cost support;
- 22           ○ The projected start date and completion date for each  
23           improvement;
- 24           ○ The estimated amount of investment for each project that is  
25           funded by high-cost support;
- 26           ○ The specific geographic areas where the improvements will  
27           be made; and

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○ The estimated population that will be served as a result of the improvement.

- If an applicant believes that service improvements in a particular wire center are not needed, it must explain its basis for this determination and demonstrate how funding will otherwise be used to further the provision of supported services in that area.

**Q. On page 9 of its Application, Alltel “commits to provide its five-year Service Improvement Plan (“Plan”) upon the adoption of a Protective Order or as otherwise directed by the Commission.” Have you had an opportunity to review this Plan?**

**A.** Yes, subject to the terms of a Protective Agreement negotiated between SCTC and Alltel, I have had an opportunity to review this Plan.

**Q. What is your overall reaction to the Plan?**

**A.** \*\* [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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**Q.**

**Does the Alltel Plan meet the requirements of the FCC guidelines?**

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**A.**

No, it most certainly does not. \*\*

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Providing this

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information is even more important, since Alltel has applied for ETC status

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throughout the entire state of South Carolina.

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**Q.**

**Why is it so important for the Commission to understand the signal quality**

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**and coverage improvements that will result from this ETC designation?**



1     A.     As I described on page 12 of my initial testimony, the amount of support that a  
2             wireless ETC receives is based not upon its own costs, but on the costs that the  
3             wireline incumbent has incurred to expand its network to serve throughout the  
4             entire service territory – even to the most remote and costly parts. As stated in my  
5             earlier testimony, “Without some meaningful and enforceable commitment to  
6             invest these funds in the towers and other wireless infrastructure necessary to  
7             deliver high-quality signal coverage in sparsely populated rural areas where such  
8             investment would not otherwise be economically viable, a wireless ETC would be  
9             able to receive substantial high-cost funds merely for continuing to serve its  
10            existing (and presumably lower-cost) customer base.” Such an outcome would be  
11            an unwise use of scarce public funds, and clearly would not be in the public  
12            interest. The Commission should expect Alltel to provide “before” and “after”  
13            coverage maps to determine the proposed amount of coverage expansion into  
14            higher-cost areas. This will be important information in evaluating the public  
15            interest benefits of individual ETC applications, and will also be useful in  
16            comparing different ETC applications when multiple wireless carriers seek ETC  
17            status in the same high-cost rural service areas. Section 214(e) and FCC Rule  
18            54.201 require the ETC to serve throughout the proposed ETC service area, and  
19            the five year plan is an important part of the Commission’s review of a  
20            prospective ETC applicant’s capability and commitment to do so.

21    **Q.     Have you reviewed the Commission’s proposed ETC designation regulations**  
22    **that are currently under review in Docket No. 2006-37-C?**

1 A. Yes I have, and I would like to bring to the Commission's attention an  
2 unfortunate, and certainly unintended, consequence of modifications to the FCC  
3 language regarding the service improvement plan that was included in this  
4 Commission's March 26, 2007 rulemaking notice. As I go through my analysis of  
5 Alltel's application in the remainder of my testimony, in addition to \*\* [REDACTED]  
6 [REDACTED] \*\* I will point out several other areas where I  
7 think the proposed rules could be modified or clarified so that the Commission  
8 can be sure to have the facts and data that it needs to make its important public  
9 interest determinations in this and future proceedings. At the end of my testimony  
10 I will summarize these suggestions for improvement in the draft rules, and hope  
11 that they will be useful as the Commission concludes its rulemaking proceeding,  
12 as well as for determining what standards the Commission will use in evaluating  
13 Alltel's application in the instant proceeding.

14 Q. What is your concern with the modification to the FCC's language in the  
15 March 26, 2007 notice?

16 A. To explain my concern, below is the language from the Commission's proposed  
17 Regulation 103-690(C)(a)(1)(B), with the FCC's language in plain text, and the  
18 Commission's proposed modifications to that language in **bold** text:

19 Submit a **two**-year plan that describes with specificity proposed  
20 improvements or upgrades to the applicant's network on a wire center-  
21 by-wire center basis, **or on a cell site-by-cell site basis if the**  
22 **applicant is a wireless carrier**, throughout its proposed designated  
23 service area. Each applicant shall demonstrate how signal quality,  
24 coverage or capacity will improve due to the receipt of high-cost  
25 support **throughout the area for which the ETC seeks designation;**  
26 the projected start date and completion date for each improvement; the  
27 estimated amount of investment for each project that is funded by

1 high-cost support; the specific geographic areas where the  
2 improvements will be made; and the estimated population that will be  
3 served as a result of the improvements. If an applicant believes that  
4 service improvements in a particular wire center **or on a particular**  
5 **cell site** are not needed, it must explain its basis for this determination  
6 and demonstrate how funding will otherwise be used to further the  
7 provision of supported services in that area.

8 My concern is that when the FCC used the words "wire center-by-wire center," it  
9 was referring to specific areas of geography, namely the service areas of specific  
10 rural and non-rural telephone companies where the applicant has requested ETC  
11 status. While I suspect that the inclusion of the term "cell site-by-cell site" was  
12 included to make the language sound more technologically neutral, it may have  
13 the unintended consequence of shifting the focus away from the requirement that  
14 the ETC applicant "serve throughout the proposed ETC service area(s) in a  
15 reasonable period of time."<sup>4</sup> For example, the last sentence of this section could  
16 be read by a wireless carrier to mean that if all of its existing cell sites are  
17 functioning properly and with sufficient capacity, that no further expansion into  
18 unserved territory is needed. Alternatively, it could mean that if the wireless  
19 carrier can provide documentation for each and every cell site that things are OK,  
20 then no further investments or improvements are required. Again, this would take  
21 the focus off of the need to assure that all parts of the proposed ETC service area  
22 are adequately served, or will be with the proposed service improvements in the  
23 five-year network build-out plan. The current USF distribution rules are not

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<sup>4</sup>*In the Matter of Federal-State Joint Board on Universal Service, Virginia Cellular, LLC  
Petition for Designation as an Eligible Telecommunications Carrier in the  
Commonwealth of Virginia*, CC Docket No. 96-45, FCC 03-338, released January 22,  
2004, at paragraph 28.

1       technologically neutral in that support is awarded to wireless carriers based upon  
2       the wireline incumbent's cost. Thus, the original FCC language should be  
3       preserved in the proposed South Carolina rule to keep the focus on the need to  
4       serve throughout the proposed ETC territory. I also have concerns regarding the  
5       proposed change from a five-year plan to a two-year plan that I will discuss later  
6       in my testimony.

7       **Q.    Could you describe how you conducted your public interest analysis of the**  
8       **Alltel filing, and particularly its service improvement Plan?**

9       A.    The first step in this process is to determine whether all universal service funds  
10       will be spent for their intended purposes. On page 10 his testimony, Mr. Mowery  
11       estimates that if Alltel is granted ETC status, that it would be eligible to receive  
12       approximately \$20 million per year in federal high-cost universal service support.

13       The service improvement Plan shows that \*\* [REDACTED]

14       [REDACTED]

15       [REDACTED]

16       [REDACTED]

17       [REDACTED]

18       [REDACTED]

19       [REDACTED]

20       [REDACTED]

21       [REDACTED] \*\*

1 Q. In its Application and/or testimony, has Alltel provided any factual basis for  
2 its estimate of \$20 million annually in universal service receipts, or have you  
3 been able to independently verify this number?

4 A. No, to the best of my knowledge Alltel has not provided this information. In  
5 order to validate this number it would be necessary to know the number of  
6 subscriber handsets that Alltel has in service in each of the ILEC study areas  
7 where Alltel is requesting ETC status. Normally an applicant will have provided  
8 this information to USAC for posting on USAC's web site. However, as of the  
9 date of this testimony, this information has not been posted there. Before the  
10 Commission formally makes its cost/benefit analysis and public interest  
11 determination, I would recommend that the Commission verify the actual amount  
12 of high-cost support at issue in this case.

13 Q. What is the next step in the evaluation of the Alltel Plan?

14 A. The next step is to determine how much of the requested funding will be used to  
15 extend wireless signal coverage into previously unserved rural and high-cost areas  
16 of the proposed ETC service area. \*\* [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]  
22 [REDACTED]  
23 [REDACTED]  
24 [REDACTED]  
25 [REDACTED]

1 [REDACTED] \*\*

2 Thus it would appear that only \*\* [REDACTED] \*\* of Alltel's proposed \*\* [REDACTED] \*\*  
3 investments will be used to increase Alltel's signal coverage. In the  
4 Commission's analysis of public benefits of any particular wireless ETC's  
5 application it is important to analyze the percentage of funding that will actually  
6 be used to expand the areas where wireless signal coverage is available. In the  
7 case of Alltel's application, it appears that, \*\* [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED] \*\*

13 **Q. Why do you believe that some of the expenditures that Alltel has proposed**  
14 **have a lower public benefit value than others in the context of the**  
15 **Commission's required public interest analysis?**

16 **A. Section 254(b) of the 1996 Act states the six fundamental universal service**  
17 **principles established by Congress. In particular, 254(b)(3) states that:**

18 Consumers in all regions of the Nation, including low-income  
19 consumers and those in rural, insular and high-cost areas, should have  
20 access to telecommunications and information services, including  
21 interexchange services and advanced telecommunications and  
22 information services, that are reasonably comparable to those services  
23 provided in urban areas and that are available at rates that are  
24 reasonably comparable to rates charged for similar services in urban  
25 areas.

1        Thus, one of the primary purposes of universal service funding is to encourage  
2        investment in rural telecommunications infrastructure that would not be  
3        economically viable without universal service support. This will enable the  
4        delivery of those services to rural consumers who otherwise would not have  
5        access to them. Wireless carriers, including Alltel, have historically built their  
6        networks in areas where population density is high and costs are low.<sup>5</sup> These are  
7        areas where a viable business case exists for the construction of networks, and  
8        costs can be recovered from customers. In fact, in a number of the urban areas of  
9        South Carolina, as many as eight wireless carriers have built wireless networks.  
10       Where population density is low and costs are high, however, there is not a  
11       business case for the construction of towers and other wireless infrastructure. In  
12       evaluating the public benefits of a proposed ETC application and network build-  
13       out plan, the Commission should thus give greater weight to the construction of  
14       network infrastructure that would extend service to currently unserved rural areas,  
15       and little if any weight to infrastructure investment in low-cost areas that are  
16       already served. This is particularly important if, as the Joint Board's recent  
17       Recommended Decision confirms, the high-cost fund has grown to the point  
18       where its very sustainability is in question. Investment to upgrade network  
19       capacity and service features in all areas of Alltel's network, including the lower-  
20       cost areas that it already serves, is good and should be encouraged; however, the  
21       issue is who pays for it. Upgrades in the lower cost areas where Alltel competes

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<sup>5</sup> Since wireless service is mobile and can be used in automobiles, wireless carriers have also historically built their networks along heavily traveled highways.

1 with other wireless carriers should be paid for by Alltel and its customers. The  
2 public's money should only be used to support network infrastructure in areas  
3 where such investment would not be made in the absence of high-cost support.

4 **Q. Does Alltel's Plan provide sufficient information to determine which**  
5 **proposed towers will provide new incremental coverage, and which merely**  
6 **overlap existing service areas?**

7 A. No it does not. \*\* [REDACTED]

8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED] \*\* Because of the importance of being able to make this  
11 determination, I would recommend that, as the Commission finalizes its ETC  
12 designation rules, it require prospective ETC applicants to provide "before" and  
13 "after" signal coverage maps as a part of their network build-out plans.

14 **Q. Have you been able to find any information that might help to determine**  
15 **which of the proposed towers will be serving higher-cost service areas vs.**  
16 **lower-cost service areas?**

17 A. Yes. Proprietary Exhibit GHB-1 shows \*\* [REDACTED]

18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED] \*\* Under the Plan \*\* [REDACTED] \*\* of the high-  
22 cost universal service fund tower investment that Alltel proposes will go to towers



1 in the BellSouth/AT&T territory, yet only 6%<sup>6</sup> of the high-cost universal service  
2 funding in South Carolina goes to BellSouth/AT&T. Conversely, only \*\* [REDACTED] \*\*  
3 of this investment will go into SCTC member company service areas, yet these  
4 areas account for 51%<sup>7</sup> of South Carolina's high-cost universal service funding.  
5 As mentioned earlier, to properly evaluate this network improvement plan the  
6 Commission will need "before" and "after" coverage maps and details of the  
7 proposed service improvements for \*\* [REDACTED] \*\*  
8 Based upon the review that I have been able to do thus far, however, it would  
9 appear that a substantial majority of the proposed coverage improvements will be  
10 made in the lower-cost areas of the state that are more likely to currently have  
11 service coverage.<sup>8</sup>

12 **Q. Are there any specific items that the Commission should exclude from the**  
13 **proposed use of universal service funds?**

14 **A.** Yes. Universal service funds cannot support investment in equipment that is used  
15 exclusively for services that are not included in the FCC's list of supported  
16 services. Broadband data services would be an example of such a non-supported  
17 service. An example of equipment that would not qualify for universal service  
18 support under the current FCC rules would be EVDO. EVDO stands for

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<sup>6</sup> Source: USAC Report HC01 3Q07.

<sup>7</sup> *Id.*

<sup>8</sup> \*\* [REDACTED] \*\*

1 Evolution – Data Optimized, and represents equipment whose sole purpose is to  
2 provide broadband services over wireless networks.

3 **Q. Do you have reason to believe that Alltel's Plan includes investment of high-**  
4 **cost funds in EVDO equipment?**

5 A. Yes. Proprietary Exhibit GHB-1 shows \*\* [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED] \*\*

As it develops its new rules for ETC  
16 designation, the Commission should require that in its network build-out plan, an  
17 ETC applicant identify the specific equipment it proposes to add in a manner  
18 sufficiently granular to identify equipment that is appropriate for USF support as  
19 well as equipment, such as EVDO, that represents inappropriate use of universal  
20 service funds.

21 **Q. You indicated earlier that in making its public interest analysis, the**  
22 **Commission should give higher weight to investments that result in increased**  
23 **signal coverage in high-cost rural areas that currently lack such coverage**

1           **and little or no weight to investments that add capacity in currently served**  
2           **lower-cost locations. Why do you think this is important?**

3    A.    Capacity upgrades in lower-cost areas that were constructed without the need for  
4           universal service support do nothing to expand the availability of wireless service  
5           to consumers in rural and currently unserved areas of the state. To the extent that  
6           this investment is being made to expand existing network capacity, this would  
7           only be necessary to the extent that traffic volumes are growing. Given that these  
8           areas were low enough in cost to construct towers and other wireless  
9           infrastructure without the benefit of universal service support, as well as the fact  
10          that on a wireless network pricing is usage-sensitive and increasing traffic  
11          volumes will bring increased revenue, network upgrades such as these should be  
12          self-supporting. Particularly at a time when the sustainability of the USF is in  
13          question, scarce universal service dollars should be used for their intended  
14          purpose of extending service to consumers in rural, insular and high-cost areas.

15       As mentioned previously, the Alltel Plan includes \*\* [REDACTED]

16       [REDACTED]  
17       [REDACTED] \*\*

18    **Q.    Please summarize your evaluation of Alltel's five-year plan.**

19    A.    Alltel's, and any other ETC applicant's, five-year plan would be more meaningful  
20           and useful if it were accompanied by network coverage maps that showed signal  
21           coverage before and after the proposed improvements. Given that the purpose of  
22           the universal service fund is to support network infrastructure that would not exist  
23           in the absence of such funding, to properly evaluate the public benefits from the

1 expenditure of scarce universal service funds, the Commission needs to see the  
2 amount of service expansion into previously unserved or underserved areas that  
3 the ETC applicant is willing to commit to. High-cost funding dollars should be  
4 spent to expand coverage in high-cost rural areas and not to reinforce network  
5 infrastructure in low-cost urban areas. The applicant should also be required to  
6 certify that these investments would not be made but for the availability of high-  
7 cost funding, and that such investments are being made in addition to capacity  
8 upgrades and other infrastructure investments that would be made in the normal  
9 course of business absent universal service support.

10 **OTHER COMPONENTS OF THE FCC GUIDELINES**

11 **Q. Continuing on with the FCC's guidelines, has Alltel demonstrated its ability**  
12 **to remain functional in emergency situations?**

13 A. Alltel's emergency response capabilities are described in Mr. Ranaraja's  
14 testimony.<sup>9</sup> The Commission will need to evaluate whether these provisions are  
15 adequate to meet the needs of the citizens of South Carolina.

16 **Q. Has Alltel demonstrated that it will satisfy consumer protection and service**  
17 **quality standards?**

18 A. On page 18 of his testimony Mr. Ranaraja states that Alltel is a voluntary signer of  
19 the CTIA Consumer Code for Wireless Services. Part 44.202 of the FCC rules  
20 states that "A commitment by wireless applicants to comply with the CTIA's  
21 Consumer Code for Wireless Service will satisfy this requirement. Other  
22 commitments will be considered on a case-by-case basis." Given that this

1 Commission has stated that it will be informed – but not controlled – by the FCC  
2 rules, SCTC would respectfully recommend that ETC applicants in the state of  
3 South Carolina also be required to comply with consumer protection rules similar  
4 to those required of other telecommunications providers in this state.

5 **Q. Does Alltel offer a local usage plan comparable to the one offered by the**  
6 **ILEC in the service area for which it seeks designation?**

7 A. No. Rural ILECs in South Carolina offer residential local rate plans with  
8 unlimited local usage for an average rate of approximately \$14.35 per month. All  
9 of Alltel's rate plans are usage sensitive, and significantly more costly than the  
10 ILEC's. The lowest priced plan that I could find on Alltel's web site was priced at  
11 \$29.99 per month and includes 300 minutes of local usage (about 10 minutes per  
12 day). Other plans with more local usage were more expensive. The \$29.99 plan  
13 requires a two-year service commitment and a \$200 early termination fee. Caller  
14 ID and voice mail are available for \$2 per month each. The subscriber is required  
15 to pay for both originating and terminating calls, and minutes over 300 in any  
16 given month are billed at \$0.45 each (or \$27 per hour). The FCC's ETC  
17 Designation order states "We encourage state commissions to consider whether an  
18 ETC offers a local usage plan comparable to those offered by the incumbent in  
19 examining whether the ETC applicant provides adequate local usage to receive  
20 designation as an ETC."<sup>10</sup> Since Alltel does not offer a plan with unlimited local

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<sup>9</sup> Ranaraja Testimony at pages 15-17.

<sup>10</sup> Report and Order, *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, FCC 05-46, released March 17, 2005 (ETC Designation Order), at paragraph 34.

1 usage at a rate reasonably comparable to that offered by the incumbent, I believe  
2 that the Commission should find that Alltel does not meet this requirement.

3 **COST/BENEFIT ANALYSIS**

4 **Q. What public costs will be created by the designation of Alltel as an ETC in**  
5 **South Carolina?**

6 A. The most obvious public cost would be the \$20 million per year of universal  
7 service funds that Alltel would receive. Since Alltel would receive payments  
8 from the universal service fund based upon the number of handsets in service, this  
9 amount can be expected to grow as Alltel adds additional customers. The costs  
10 would actually go higher if the Commission grants ETC status to multiple  
11 wireless carriers. As I identified in my initial testimony, Hargray and FTC  
12 currently have ETC requests pending for portions of the same service areas that  
13 Alltel has requested, and if it becomes evident that ETC status can be obtained  
14 based on a minimal service commitment and factual showing, then it is likely that  
15 other wireless carriers will also apply, further driving up the cost. Presently as  
16 many as eight wireless carriers are licensed in parts of the service area that Alltel  
17 has requested. For this reason I have recommended throughout this testimony that  
18 the Commission carefully evaluate (and compare) the five-year service  
19 improvement plans submitted by Alltel and other ETC applicants, and only grant  
20 ETC status when the public benefits clearly exceed the public costs.

21 **Q. What public benefits has Alltel described in its testimony in this proceeding?**

1 A. In their respective testimonies, Mr. Mowery and Mr. Ranaraja discuss their  
2 perception of the public benefits that the designation of Alltel as an ETC would  
3 bring. Among the items that they have mentioned are:

- 4 • Health and safety benefits;
- 5 • Economic development opportunities; and
- 6 • Competitive benefits.

7 **Q. Throughout his testimony, Mr. Mowrey stresses the public health and safety**  
8 **benefits of mobility. Is mobility a unique advantage of Alltel's service**  
9 **offering?**

10 A. No. While Alltel's service does provide mobility, so do all of the other wireless  
11 carriers licensed in the State of South Carolina to provide mobile wireless service.  
12 It is critically important to keep in mind, however, that the health and safety  
13 benefits of wireless service only exist where there is a wireless signal present, and  
14 a new ETC designation will benefit the public's access to these benefits only to  
15 the extent that it expands the area where these benefits can be enjoyed. Thus, the  
16 *incremental* public health and safety benefits of any particular ETC designation  
17 are directly proportional to the amount of funding that is used to add new towers  
18 that will expand the service into areas where a wireless signal is not currently  
19 present. Therefore the Commission should carefully evaluate how much of the  
20 high-cost funding the ETC applicant proposes to use to extend signal coverage  
21 into previously unserved areas.

1 Q. Based upon your review of Alltel's application, testimony and five-year plan,  
2 do you believe that the benefits of Alltel's designation as an ETC will be in  
3 the public interest?

4 A. No. The cost/benefit math is simple. As I have previously described, incremental  
5 public benefits come predominantly from the extension of signal coverage into  
6 previously unserved areas. If approved, Alltel will receive a minimum of \$20  
7 million per year, or over \$100 million over the five-year plan time frame. As I  
8 described in the previous section of my testimony, over this same period, Alltel  
9 only proposes to spend \*\* [REDACTED] \*\* of its high-cost universal service fund  
10 receipts on new tower facilities that could potentially expand service area, and \*\*  
11 [REDACTED] \*\* in lower-cost areas of the state where Alltel already  
12 serves. Alltel's five-year plan \*\* [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED] \*\* Alltel carries the burden of proof in this proceeding that its  
16 designation would be in the public interest, and it simply has not met that burden.  
17 The facts lead me to conclude that the increased public benefits of Alltel's  
18 designation fall significantly short of the increased cost, and therefore such  
19 designation and the resulting expenditure of public funds would not be in the  
20 public interest.

21 Q. On page 14 of his testimony Mr. Ranaraja describes a six-step process that  
22 Alltel would follow in deciding how or whether Alltel would provision service  
23 to customers outside of its network area. Similar language can be found in



1       the Commission's proposed ETC rules. Do you think that this six-step  
2       process serves the public interest?

3    A.   No, I do not, for two reasons. The first is its reliance on high-power customer  
4       premise equipment and/or rooftop antennas to extend service into areas with poor  
5       signal quality. While this might provide a benefit to the particular individual upon  
6       whose rooftop the antenna is mounted, it provides no incremental public health  
7       and safety benefits to the general population in that area. If the wireless signal is  
8       not strong enough to work with the basic wireless handset that most consumers  
9       use, then the general public would not be able to reach emergency services should  
10      they be traveling through such an area. Again, the primary health and safety  
11      benefits come through the construction of towers that expand the area where  
12      consumers can make wireless calls.

13   Q.   What is your second concern with the six-step process?

14   A.   My second concern is that in the final step of the process, the carrier would appear  
15      to have the option to not install a new tower if doing so would prove too costly.  
16      As I have stated repeatedly in this testimony, the primary purpose of universal  
17      service funding is to support infrastructure investment in rural areas that would  
18      not otherwise be made because they are too costly to serve. I believe that the six-  
19      step process is an anachronism from the early days of ETC designations, when the  
20      purpose of universal service funding was erroneously perceived as being to  
21      promote competition. As I outlined at the beginning of my testimony, we have  
22      come a long way since then. The dire straits that the universal service fund is now  
23      in have resulted in large part from the granting of ETC status without careful

1 consideration of how scarce public funds will be used, and how the public would  
2 benefit from such expenditures. I would therefore recommend that the  
3 Commission remove these service provisioning steps from its proposed rule, or at  
4 a minimum have someone other than the carrier itself determine when a high-cost  
5 area is too high-cost for high-cost funding.

6 **Q. Have you been able to determine how much high-cost USF support Alltel is**  
7 **currently receiving in states where it has been designated as an ETC?**

8 A. Yes. Exhibit GHB-3 lists, by state, the amount of universal service funding that  
9 Alltel is receiving in the third quarter of 2007 as shown on USAC report HC01.  
10 The total amount Alltel is receiving for all states in which it has been designated  
11 as an ETC as of the third quarter of 2007 is \$80.2 million. Annualizing this  
12 number yields a total of \$320.9 million.

13 **Q. Do you have any evidence of how Alltel senior management has viewed the**  
14 **receipt of high-cost universal service support in the past?**

15 A. Yes. In early 2003 then-Western Wireless<sup>11</sup> CEO (and current Alltel Board  
16 Member) John Stanton had a meeting with the investment community, and one  
17 analyst wrote in response, "The USF subsidy represents an incremental revenue  
18 source, which we believe should improve our revenue and EBITDA [Earnings  
19 Before Income Taxes, Depreciation, and Amortization] estimates [for Western

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<sup>11</sup> Alltel acquired Western Wireless in 2005, and integrated its operation into Alltel's operations. Alltel's Application in this proceeding contains an affidavit signed by Mr. Gene De Jordy, Senior Vice President – Regulatory Counsel, Alltel Communications, Inc., stating that he is "in charge of Alltel's Application for Designation as an Eligible Telecommunications Carrier ("ETC") in the State of South Carolina." Mr. De Jordy previously served as Vice President – Regulatory Affairs for Western Wireless Corp.

1 Wireless] by \$6-8 million during the first quarter and \$24-30 million during 2003  
2 as the incremental revenue is almost all margin.”<sup>12</sup> Alltel is currently the largest  
3 single recipient of high-cost universal service funding, receiving \$239.7 Million  
4 of such funding in 2006 which equates to over 29% of Alltel’s reported income  
5 from continuing operations.<sup>13</sup> I might also add that it was recently announced that  
6 Alltel is being acquired by a consortium of private equity firms (the Texas Pacific  
7 Group and the private equity arm of Goldman Sachs) for a total of \$27.5 billion.<sup>14</sup>

8 **Q. Why do you believe that this information is relevant to this Commission as it**  
9 **considers Alltel’s application for ETC status in the State of South Carolina?**

10 A. I think it shows that without clearly articulated goals from this Commission  
11 regarding the purpose of universal service support, and vigilant oversight to assure  
12 that these goals are achieved, there is the potential for scarce universal service  
13 funds to be used for other than their intended purpose of extending wireless  
14 infrastructure into previously unserved high-cost rural areas.

15 **THE ETC DESIGNATION RULEMAKING**

16 **Q. Do you have specific recommendations for the Commission regarding its**  
17 **proposed ETC rules?**

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<sup>12</sup> “Western Wireless (WWCA): USF Provides Upside To Our EBITDA Estimate,” Salomon Smith Barney *Research Note*, issued January 9, 2003, at page 2.

<sup>13</sup> USAC Reports HC01 for 1Q06 – 4Q06 report that Alltel and its wireless acquisitions received \$239.7 million of high-cost support in 2006. Alltel’s 10K report for 2006 (at page F-7) reports \$823.7 million of income from continuing operations.

<sup>14</sup> “TPG, Goldman Arm Land Alltel,” Wall Street Journal, May 21, 2007.

1 A. Yes, I do. In my initial testimony in this proceeding filed on June 15, 2007, I  
2 offered the following recommendations that were first proposed by SCTC in its  
3 filing of June 1, 2007:

- 4 • The rules should specifically state that the Commission must take into  
5 consideration whether or not granting a particular application would help  
6 further the goals and purposes of the federal high-cost universal service fund  
7 and the universal service provisions of Section 254 of the  
8 Telecommunications Act of 1996.
- 9 • The rules should require that the Commission undertake a cost-benefit  
10 analysis prior to making a determination that would require the expenditure of  
11 public funds to support the additional ETC.
- 12 • The rules should clarify that the public interest determination is to be made  
13 separately for each rural telephone company study area included in the area for  
14 which the applicant seeks designation as an ETC.
- 15 • The rules should provide enough detail regarding exactly what commitments  
16 and data are required of applicants and how specific requirements are to be  
17 met.

18 Based upon this reply testimony and my review of the Alltel application I would  
19 recommend the following additional modifications to the proposed rules:

- 20 • The language in 103-690(C)(a)(1)(B) should be returned to the original FCC  
21 language to remove any ambiguity regarding the requirement for the  
22 prospective ETC to demonstrate its capability and commitment to serve  
23 throughout the proposed ETC service area within a reasonable period of time.

- 1       • The following provisions should be added to the wording in 103-  
2       690(C)(a)(1)(B) to provide clarity regarding the specific data showings that  
3       the ETC applicant is required to make:
  - 4       ○ The applicant must submit a five-year plan sufficient to demonstrate its  
5       capability and commitment to use high-cost funds to serve throughout its  
6       ETC service area within a reasonable time. Within this plan, the applicant  
7       will provide specific identification of network improvement projects and  
8       service enhancements that it proposes to make during the first two years of  
9       the plan.
  - 10      ○ A wireless applicant must provide signal coverage maps showing signal  
11      coverage both before and after the proposed network improvements are  
12      made.
  - 13      ○ Proposed new tower locations must be labeled so as to allow the  
14      identification of signal coverage improvements with the related service  
15      improvement projects.
  - 16      ○ The applicant must provide an estimate of its baseline investment levels  
17      without the receipt of universal service funds, and certify its commitment  
18      to use any high-cost universal service funds that it receives in addition to  
19      expenditures that it would have made without the provision of high-cost  
20      funding.
  - 21      ○ For each service improvement project, the applicant must identify the  
22      equipment with sufficient granularity that the Commission can ensure that  
23      universal service funds are used only for the provision of supported

1 services, and not for the unique provision of services that are not  
2 supported (i.e., broadband).

- 3 ○ The six-step service provisioning process described in the rule should  
4 either be removed in its entirety, or at a minimum the final step should be  
5 modified to have someone other than the wireless carrier determine when  
6 the construction of a new tower would be too costly.

## 7 **CONCLUSIONS**

8 **Q. Could you please summarize your testimony and recommendations to the**  
9 **Commission?**

10 A. As mentioned in my Initial Testimony, the recent Joint Board Recommended  
11 Decision is an indication that policy leaders at the federal level believe that  
12 immediate action is necessary to rein in the explosive growth in high cost  
13 universal service disbursements. They have identified the current equal-per-line  
14 support rule and the designation of multiple ETCs in many high-cost rural service  
15 areas as causes of this, and have committed to quickly come up with  
16 recommendations for long-term universal service reform. In this proceeding, as  
17 well as in other CETC cases and rulemaking dockets that are proceeding  
18 concurrently, the Commission has the opportunity to get the ETC designation  
19 process right. The goal of universal service funding is clear – to facilitate  
20 investment in and maintenance of high-cost telecommunications infrastructure  
21 that would otherwise not be economically viable, so that rural consumers can  
22 enjoy services that are comparable to those available in urban areas. As I have  
23 explained throughout my testimony, in making its important public service

1 findings, this Commission should determine the extent to which the ETC  
2 applicant will use the high-cost funds that it requests to extend its network into  
3 high-cost and currently unserved areas of the state, and employ a thoughtful  
4 cost/benefit analysis that awards ETC status only when the benefits of service  
5 expansion and other network upgrades clearly exceed the costs of increased  
6 universal service funding.

7 **Q. In your opinion, does Alltel's application, as supported by its testimony and**  
8 **five-year plan, pass this type of cost/benefit test?**

9 A. No. Alltel's five-year network improvement plan is incomplete, and until such  
10 time as it has supplied the Commission with the missing information it is not  
11 possible for the Commission to reach any conclusion regarding the public benefits  
12 that this plan will bring. Of the \$20 million of annual high cost support that Alltel  
13 will receive \*\* [REDACTED] \*\* will go into new tower facilities  
14 that potentially could expand service area, and \*\* [REDACTED] \*\* in  
15 lower-cost areas of the state where Alltel already serves. While improving overall  
16 network infrastructure throughout the entire ETC service area, including currently  
17 served lower-cost portions, is a laudable goal, this is not the purpose of universal  
18 service funding. The important health and safety benefits that Alltel describes as  
19 one of the primary benefits of its designation are only available when there is a  
20 signal present. Scarce high-cost fund resources should be used for their intended  
21 purpose, which is the extension of signal coverage into remote, high-cost areas  
22 that currently lack coverage. This should be the litmus test by which the  
23 Commission reviews this and any other ETC application that comes before it.

1    **Q.    Should the Commission approve Alltel's application based upon the factual**  
2       **showings that Alltel has made in this proceeding?**

3    A.    No. Based upon the record before it, I believe the Commission should find that  
4       Alltel has not met its burden of proving that the increased public benefits of its  
5       designation will exceed the significant public costs that such designation will  
6       create, and that the application should not be approved.

7    **Q.    Does this conclude your testimony at this time?**

8    A.    Yes.



## Proprietary Exhibit GHB-1

## Proprietary Exhibit GHB-2

### Exhibit GHB – 3

#### Alltel USF Receipts by State

| State        | 3Q07                | Annualized           |
|--------------|---------------------|----------------------|
| AL           | \$1,567,985         | \$6,271,940          |
| AR           | \$6,718,206         | \$26,872,824         |
| CA           | \$37,701            | \$150,804            |
| CO           | \$830,373           | \$3,321,492          |
| FL           | \$1,399,809         | \$5,599,236          |
| GA           | \$1,053,240         | \$4,212,960          |
| IA           | \$2,251,848         | \$9,007,392          |
| KS           | \$14,874,141        | \$59,496,564         |
| LA           | \$2,129,478         | \$8,517,912          |
| MI           | \$3,666,705         | \$14,666,820         |
| MN           | \$5,888,178         | \$23,552,712         |
| MS           | \$3,404,203         | \$13,616,810         |
| MT           | \$1,085,548         | \$4,342,191          |
| NC           | \$1,001,520         | \$4,006,080          |
| ND           | \$4,800,303         | \$19,201,212         |
| NE           | \$7,780,200         | \$31,120,801         |
| NM           | \$1,002,597         | \$4,010,388          |
| NV           | \$1,373,265         | \$5,493,060          |
| SD           | \$8,019,641         | \$32,078,565         |
| TX           | \$3,493,161         | \$13,972,644         |
| VA           | \$970,653           | \$3,882,612          |
| WI           | \$4,258,269         | \$17,033,076         |
| WV           | \$674,375           | \$2,697,499          |
| WY           | \$1,942,619         | \$7,770,477          |
| <b>Total</b> | <b>\$80,224,018</b> | <b>\$320,896,071</b> |

Source: USAC Report HC01 3Q07 for Alltel Wireless, Midwest Wireless and Western Wireless

## DOCKET NO. 2007-151-C

## CERTIFICATE OF SERVICE

COLUMBIA 892379v1